

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 INRE-00 USIE-00 CIAE-00

PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01

PRS-01 SPC-03 SS-20 SAM-01 EB-11 FEA-02 INT-08 CIEP-02

NEA-11 TRSE-00 SAI-01 COME-00 COA-02 DRC-01 EURE-00

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FM AMEMBASSY REYKJAVIK

TO SECSTATE WASHDC IMMEDIATE 4338

INFO USMISSION NATO

COMICEDEFOR

CINCLANT

SECDEF

UNCLAS REYKJAVIK 0260

E.O. 11652: N/A

TAGS: PFOR, MARR, IC, NATO

SUBJ: ALLEGED SOVIET OIL THREAT

REF: STATE 026707

1. MINISTER OF FISHERIES AND COMMERCE LUDVIK JOSEPPSON (PEOPLES ALLIANCE) CALLED UNUSUAL SATURDAY MORNING PRESS CONFERENCE FEB 9 TO DENOUNCE WIRE SERVICE STORIES APPEARING HERE CITING "RELIABLE SOURCES IN WASHINGTON" AS REPORTING THAT USSR HAD THREATENED TO CUT OIL SUPPLY UNLESS ICELAND TERMINATES DEFENSE AGREEMENT WITH US.

2. APPEARING WITH HIS TWO TOP CIVIL SERVANTS, JOSEPPSON SAID STORIES WERE "TOTALLY UNFOUNDED." QUOTE: WE IN THE TRADE MINISTRY WANT TO PROTEST AGAINST THIS NONSENSE AND POINT OUT THAT WRITINGS LIKE THIS CAN DAMAGE THE SENSITIVE TRADE INTERESTS OF ICELAND. UNQUOTE.

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3. JOSEPPSSON SAID HE WOULD NOT SPECULATE ON ORIGINS OF STORIES, BUT SAID HE COULD POINT TO POSSIBLE LINK BETWEEN THEM AND POLITICAL SITUATION IN ICELAND BECAUSE OF THE BASE ISSUE. ICELANDIC/ SOVIET OIL TRADE, HE SAID, HAS RESULTED IN "SECURITY" FOR ICELAND SINCE SUPPLY HAS BEEN ON FAVORABLE TERMS, PARTICULARLY CONSIDERING OIL SITUATION IN WORLD TODAY. IT WAS THEREFORE AGREED LAST AUTUMN, HE SAID, TO RENEW OIL AGREEMENT WITH USSR UNDER WHICH ICELAND BUYS ABOUT 80 PERCENT OF ITS REQUIREMENTS IN PETROLEUM PRODUCTS. JOSEPPSSON SAID USSR HAS NEVER MADE DEFENSE FORCE ISSUE A PART OF THEIR NEGOTIATIONS.

4. REFERRING TO OTHER ASPECTS OF SOVIET-ICELANDIC TRADE, JOSEPPSSON SAID THERE HAS BEEN UNCERTAINTY IN THE SALES OF FISH TO THE SOVIET UNION RECENTLY. THERE IS A FREEZE ON PRICES IN USSR AND THEY HAVE BEEN UNABLE TO ADAPT TO HIGHER INTERNATIONAL MARKET. BUT SOVIET FISH PURCHASES ARE IMPORTANT TO ICELAND SINCE, HE CLAIMED, SOVIETS BUY SOME FISH PRODUCTS NOT MARKETABLE ELSEWHERE.

5. FOLLOWING UP STATEMENTS OF FOREIGN MINISTER AGUSTSSON AND WASHINGTON AMBASSADOR KROYER THAT SHORTAGES IN RECENT SOVIET DELIVERIES HAD BEEN DUE TO "TECHNICAL" REASONS, JOSEPPSSON SAID: QUOTE: THERE WAS A MINOR DELAY IN DELIVERING THE OIL LAST MONTH BUT THIS HAS HAPPENED BEFORE. HOWEVER, OIL CONSUMPTION HERE HAS BEEN UNUSUALLY GREAT AND IS EXPECTED TO INCREASE DURING THIS FISHING SEASON. WHEN A 16,000 TON SUPPLY WAS MADE AVAILABLE IN ROTTERDAM RECENTLY THERE WAS REASON TO ACCEPT IT SINCE IT WAS ON UNUSUALLY FAVORABLE TERMS--ABOUT THE SAME PRICES AS THE SOVIET OIL WHICH WE HAVE BEEN RECEIVING. UNQUOTE.

6 IN COMMENTING ON REPORTS FROM WASHINGTON, IP DAILY MORGUNBLADID SAID: QUOTE: THERE IS EVERY REASON TO BELIEVE THAT, WITH THE MEASURES THE SOVIET UNION HAS TAKEN, THEY ARE USING ECONOMIC PRESSURES TO GET THEIR WILL IN DEFENSE AFFAIRS. THE AMOUNTS OF OIL WE BUY ARE SO SMALL IT IS IMPOSSIBLE THAT THEY COULD HAVE ANY DIFFICULTY IN SUPPLYING THEM. OFFICIAL SOURCES DO NOT CONFIRM IT BUT SUCH SOURCES NEVER DO CONFIRM SUCH REPORTS. UNQUOTE.

7. PROGRESSIVE PARTY'S TIMINN CARRIED REPORT OF NEWSWEEK ITEM UNCLASSIFIED

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AND THEN QUESTIONED FONMIN AGUSTSSON ABOUT IT. HE REPLIED, "THIS IS COMPLETELY UNFOUNDED. NO SUCH THREATS HAVE BEEN MADE BY THE RUSSIANS -NEITHER NOW NOR IN THE PAST. THE DELAY IN SHIPMENTS IS BECAUSE OF TECHNICAL REASONS AND THERE IS NO CONNECTION BETWEEN THAT DELAY AND THE PRESENCE OF THE DEFENSE FORCE. MARTIN

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